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Dr Doom's analysis warms the room

DIGGERS and DEALERS

He earned the moniker "Dr Doom" for prescient forecasts of the global financial crisis, but the Australian mining industry will hope Nouriel Roubini's latest prediction proves equally accurate after telling the Diggers and Dealers conference the commodities rally could continue into next year.

The New York-based economist's positive assessment of metal prices and prospects for recovery in the Australian economy comes amid a renewed sense of confidence among miners attending the industry's yearly gabfest in Kalgoorlie.

While Professor Roubini said a recovery in the domestic economy would be "more robust" than other Western economies, he cautioned Australia was not immune to the headwinds buffeting the global economy and the ongoing deleveraging by debt-burdened consumers.

Professor Roubini said the global economy was "closer to the bottom than we were six months ago" though he expected growth to remain sluggish with economic

Nouriel Roubini

growth in the United States running at an annual rate of about 1 per cent. "In my view the optimists are still too optimistic," Professor Roubini said.

The global economy may contract by 2 per cent this year then swing to growth as high as 2.3 per cent in 2010, he said.

Professor Roubini said although Australia was not technically in a recession the country "substantially" appeared to be. But the strength of its financial sector and relatively low levels of public debt had left the economy in better shape than those of Japan and the US.

"So while in the short run there are economic difficulties and we cannot deny them – there's still a housing recession, economic growth is weak and unemployment is rising – there are other forces that imply the recovery of Australia is going to be more robust than many other advanced economies," he said.

Some economists expect Australia is coming into a difficult period following the federal government's fiscal stimulus package which coincided with a rally in equity markets and commodity prices.

Professor Roubini said the biggest challenge for the Australian economy was its ability to return to potential growth, which would hinge on local and overseas factors.

"That is going to depend in part on variables that are not under the control of Australia, how robust the growth recovery of China is going to be . . . whether there is going to be a recovery of growth in US, Europe and Japan," he said.

"There are domestic challenges. The slowdown of Australia was in part based on the fact there were financial excesses, there was a housing bubble, there was excessive indebtedness by the consumer.

"This process of deleveraging [that] is occurring in the United States is also occurring on a smaller scale even in a country like Australia, so being able to face this process successfully is going to be one of the important challenges Australia has to face."

Professor Roubini said he expected the Australian dollar to strengthen against a weakening US dollar, moving in line with Australia's growth and increasing commodity prices.

"As the global economy goes toward growth as opposed to a recession you are going to see further increases in commodity prices, especially next year," he said.

"There is now potentially light at the end of the tunnel."

He said China "cannot be the major or single engine of global growth" but the emerging economies of India and China have the capability of growing at greater than 7 per cent a year.

The most recent figures from China indicate its growth is running at a rate of 7.5 per cent after the injection of a 4 trillion yuan stimulus package by the government.

Professor Roubini said there could not be sustained growth in China if the US, Europe, Japan and other advanced economies stayed anemic.

He said China and other emerging economies also had to change their model of growth from excessive reliance on exporters and instead promote domestic private demand.

"The quality of the growth recovery of China has some elements of vulnerability and fragility that may then have negative repercussions on Asia and commodities exporters themselves," Professor Roubini said.

The weakness of consumer demand posed a short-term risk of deflation in many major economies, he said, though inflationary risks existed in the medium term which would be good for commodity prices, particularly gold.

He said there was a significant probability the United States and other advanced economies would reduce their fiscal deficits by allowing a period of inflation.

The biggest risk was that the US would continue with its large fiscal deficit and this would lead to an accumulation of public debt. Further monetisation of the fiscal deficit would eventually lead to higher expected inflation, Professor Roubini said.

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